Tax Bills to Surge Even With Commitment to Hold Headline Income Tax Rate in Budget 2013 – Grant Thornton

13th November 2012: PAYE households may have to pay over €3,000 in additional taxes next year through a combination of increased PRSI and Universal Social Charge contributions, reduced pension relief and a property tax, according to analysis carried about by business advisors Grant Thornton.

In its pre-budget research, Grant Thornton reviewed a range of scenarios* to assess the impact of expected changes, which show tax increases for families of between three to nine thousand euros depending on salary levels and family circumstances:

Salary	Investment income	Spouse Salary	House Value	Tax paid 2012	Forecast Tax Paid 2013	Difference	% Change
€40k	€0k	€40k	€200k	14513	**17763**	**3250**	**22%**
€80k	€5k	€40k	€400k	35253	**40663**	**5410**	**15%**
€150k	€5k	€40k	€750k	69501	**78250**	**8750**	**13%**

Note: *assumes a married couple with 2 children, second household salary of €40,000, home owners of a property worth five times the primary earner's salary, property tax only levied from July 2013, all income earners contribute 15% of gross income to a pension scheme, tax relief on pension contributions drops from 41% to 20%.*

Commenting on the analysis Grant Thornton Tax Partner Peter Vale said:

> "There will be a lot of talk in the budget about income tax rates not being increased, but the reality is that disposable incomes are going to take a major hit even if the headline top rate of income tax stays at 41%. Under every scenario we have run, tax bills rise by more than 10%. The government faces stark choices if it is to meet commitments made to the Troika. Somewhere in the Department of Finance, officials are running numbers in spreadsheets and every outcome is likely to be unpalatable."

Grant Thornton's analysis anticipates the following significant changes* next year:

- An increase in the Universal Social Charge (USC) from 7% to 8%, and to 10% on income above €100,000
- An extension of employee PRSI (currently levied at 4%) to cover non-employment income such as dividends and rents on property investments
- A reduction in tax relief on pension contributions from 41% to 20%

- A property tax from July 2013, levied as 0.25% of a property's value

In addition to these changes, Grant Thornton also expects increases to motor tax rates, higher deposit interest retention tax (DIRT), and the old reliables (cigarettes and alcohol) to be hit. These likely changes are on top of the increases shown in Grant Thornton's analysis.

Peter Vale continues:

> "Recent comments by the Minister for Social Protection Joan Burton suggest that as an alternative to reducing tax relief for pension contributions from 41% to 20%, a cap on the overall pension fund size may be introduced. Those nearing the end of their careers, who have prudently built up their pensions savings, may not benefit from this alternative approach and could potentially lose tax relief completely on future pension contributions. When you bear in mind that practically all pension funds are subject to the new 0.6% pension levy, the position is bleak for those looking to save for the future."
>
> "It is difficult to envisage a Budget next month that is not painful for everybody. With at least €3.5bn euro being sought from expenditure savings and tax increases, we will all be feeling considerably less well off on December 5th. A big concern has to be how badly the changes impact consumer demand in 2013, thus limiting potential for growth in the economy."

ENDS

- Peter Vale, Tax Partner at Grant Thornton will be available on December 5th and 6th for commentary on the Budget.

For further information and interview requests please contact:

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***Methodology & Assumptions**

The assumptions made in this analysis are as follows:

Scenario calculations

- 15% of gross salary is made as a pension contribution
- No changes to tax bands and credits
- Property tax only levied for 6 months from July 2013 with house value assumed at 5 times main earner's salary; €100 household charge also levied in 2013
- €40k level chosen based on CSO data showing average salary of €40,775 in 2011
- A full table of scenarios is below:

€80k primary salary; €5k investment income; €400k house value

80k Single, No Children, Investment Income €5k, House Value €400k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	19742	22262	2520	13%
USC	5269	5959	690	13%
PRSI	2936	3136	200	7%
Property Tax	100	600	500	500%
Total	**28047**	**31956**	**3910**	14%

80k Married, 2 Children, Investment Income €5k, House Value €400k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	15392	17912	2520	16%
USC	5269	5959	690	13%
PRSI	2936	3136	200	7%
Property Tax	100	600	500	500%
Total	**23697**	**27606**	**3910**	16%

80k Married, 2 Children, Partner €40k, Investment Income €5k, House Value €400k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	23494	27274	3780	16%
USC	7388	8317	930	13%
PRSI	4272	4472	200	5%
Property Tax	100	600	500	500%
Total	**35253**	**40663**	**5410**	15%

€150k primary salary; €5k investment income; €750k house value

150k Single, No Children, Investment Income €5k, House Value €750k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	46290	49912	3623	8%
USC	10169	12659	2490	24%
PRSI	5736	5936	200	3%
Property Tax	100	1038	938	938%
Total	**62294**	**69544**	**7250**	12%

150k Married, 2 Children, Investment Income €5k, House Value €750k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	41940	45562	3623	9%
USC	10169	12659	2490	24%
PRSI	5736	5936	200	3%
Property Tax	100	1038	938	938%
Total	**57944**	**65194**	**7250**	13%

150k Married, 2 Children, Partner €40k, Investment Income €5k, House Value €750k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	50042	54924	4883	10%
USC	12288	15017	2730	22%
PRSI	7072	7272	200	3%
Property Tax	100	1038	938	938%
Total	**69501**	**78250**	**8750**	13%

€40k primary salary; no investment income; €200k house value

€40k Single, No Children, House Value €200k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	3752	5012	1260	34%
USC	2119	2359	240	11%
PRSI	1336	1336	0	0%
Property Tax	100	350	250	250%
Total	**7307**	**9056**	**1750**	24%

€40k Married, 2 Children, House Value €200k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	1040	1040	0	0%
USC	2119	2359	240	11%
PRSI	1336	1336	0	0%
Property Tax	100	350	250	250%
Total	**4595**	**5084**	**490**	11%

€40k Married, 2 Children, Partner €40k, House Value €200k				
	2012 Pre-Budget	**2013 Post Budget**	**Difference**	**% Increase**
Pension Impact on Income Tax	7504	10024	2520	34%
USC	4238	4717	480	11%
PRSI	2672	2672	0	0%
Property Tax	100	350	250	250%
Total	**14513**	**17763**	**3250**	22%

Assumed taxation changes

Tax Head	Currently	Forecast	Alert level
Universal Social Charge	7%	8% & 10% over €100k	
Employee PRSI	4% but not applied to investment income	4% applied to investment income e.g. Rent	
Pension Relief	@41%	@20	
Property Tax	€ 100	0.25% of value	

Note: *Alert level denotes Grant Thornton's level of confidence that change will be introduced as forecast*